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SUBJECT: CODEL GRANGER SCENESETTER

SUMMARY

¶1. (SBU) Embassy Asuncion warmly welcomes Codel Granger September 2-5. Your visit follows President Fernando Lugo's one-year anniversary in office, and will find the Lugo government grappling with the challenges of day-to-day governing. A corrupt judiciary and national police, under-funded law enforcement institutions, and a large, informal economic sector make Lugo's fight against corruption difficult. Your visit offers the United States an opportunity to reaffirm support for Paraguay's democratic institutions, and in particular, its law enforcement institutions. END SUMMARY.

LOCAL AND REGIONAL POLITICS

¶2. (SBU) Fernando Lugo's administration represents the first interruption in Colorado Party rule in 61 years. By voting overwhelmingly for change, the Paraguayan people gave former Catholic bishop Lugo a mandate for political, economic, and social reform. However, they also have high expectations. Lugo took office on August 15, 2008 and just completed his first year in office. He appears to be committed to reform, but is discovering that real change is difficult to bring about.

¶3. (SBU) Lugo is a leftist at heart, but a pragmatist of mind. He maintains close relations with Venezuela, Bolivia, and Ecuador, but also with the United States, Chile, Brazil, Colombia and others. He said in late July that Paraguay's "first circle" is MERCOSUR, and that Paraguay does not seek to join the Bolivarian revolution. Lugo met with President Bush in Washington in October 2008; he saw President Obama as well as a congressional delegation led by Congressman Engel at the Summit of the Americas in Trinidad and Tobago. Codel Price (HDAC) visited Paraguay August 19-20.

¶4. (SBU) Lugo's challenges are many: His inexperienced team must overcome endemic corruption in order to achieve its goals of strengthening democratic institutions, promoting economic growth, and bringing about judicial, police, and land reform. Lugo's Patriotic Alliance for Change (APC), a loose coalition of political parties, won a large block of seats in Congress but does not have a majority. The Liberal Party, one of Paraguay's major political parties, waffles back-and-forth in its support for Lugo, and Lugo has distant (at best) relations with his Liberal Party Vice President,

Federico Franco.

Lugo's own inner circle continues to jockey for power and ideological influence. So far, Lugo has weathered the storms he has faced (including several paternity scandals), but he has yet to develop a clear national agenda, or to engage in the daily political brokering which will be critical to his administration's success.

THE ECONOMIC REALITY

¶15. (U) Although Paraguay's macroeconomic indicators show the country is reasonably positioned to face the financial crisis, the economy is expected to contract at least three percent this year, and will continue to shed jobs in the process. Exports markedly slowed in the first half of 2009 as a result of lower prices and weaker external demand for Paraguay's main export commodities (soy, grains, cattle). Unemployment is over 20 percent, and with a population growth rate above 2 percent per annum, the economy is not creating enough jobs to meet demand. Paraguay boasts vast hydroelectric resources, including the massive Itaipu hydroelectric dam built and operated jointly with Brazil, but fails to capitalize on those resources. The new government purports to welcome foreign investment, but widespread corruption and a weak judicial system are deterrents. There is significant commercial activity involving the import of goods from Asia and to a lesser extent the United States for re-export to neighboring countries, mainly Brazil. The underground economy, which is not included in the national accounts, is probably twice the formal economy in size.

¶16. (U) Bilateral trade with the United States has increased over the last six years. The U.S. imported from Paraguay about USD 80 million in 2008, and exported over USD 1.6 billion, up from USD 1.2 million in 2007. Paraguay withdrew its objection to U.S. trade preferences in the WTO last March, thus opening the door for future trade discussions. U.S. Representative Engel introduced trade preference legislation (ATPA) in the U.S. Congress in April which would give Paraguay increased access to U.S. markets, and a USTR expert is visiting Paraguay the week of August 24 to help the private sector take full advantage of existing GSP benefits. More than a dozen U.S. multinational firms have subsidiaries in Paraguay, and some 75 U.S. businesses have agents or representatives in Paraguay. Cargill, ADM, Coca Cola, and Exxon Mobile are the largest U.S. companies operating in country. With over USD 650 million in private investment stock, the U.S. is Paraguay's largest investor.

PUBLIC SECURITY ISSUES

¶17. (SBU) Security and social issues are top concerns of Lugo's constituents. Violent crime is increasing in urban and rural areas, and the public generally believes that Paraguayan security forces (particularly the corrupt police) do not meet their security needs. The "landless" farmer movement -- active for many years in Paraguay -- has organized protests and land invasions, calling for reform by illegally occupying large, privately-held ranches. On some occasions, protests and land invasions have resulted in deaths or injuries.

¶18. (SBU) The Tri-Border Area (TBA) of Paraguay, Argentina and Brazil is a hub for transnational criminal activity including drug trafficking, trafficking in persons (TIP), arms trafficking, intellectual piracy, and money laundering. Paraguay is a major transshipment point for cocaine from Colombia and Bolivia to Brazil; it is the top marijuana producer in South America and the second largest in the world. Paraguay remains a regional haven for money laundering. Paraguayan authorities often experience difficulties enforcing the law because of hostile geography, corruption, chronic understaffing, and the political and judicial power some drug traffickers wield. Paraguay took a

giant step forward on money laundering, intellectual property violations, and trafficking in persons by passing a tougher penal code that went into effect in July.

¶19. (SBU) Paraguay's Anti-Narcotics Secretariat (SENAD) is a strong partner on counternarcotics. DEA works closely with SENAD's Sensitive Investigative Unit (SIU). DEA's efforts intensified this year via an increased presence in country. State's International Narcotics and Law Enforcement (INL) program, although modest, multiplies DEA's efforts in country (USD 253,000 in FY2009; USD 500,000 requested for FY2010). In addition to counternarcotics, the INL program also supports other Paraguayan institutions in combating narcotics trafficking, money laundering, IPR violations, and trafficking in persons.

OTHER U.S. ASSISTANCE TO PARAGUAY

¶10. (U) U.S. assistance in Paraguay is consistent with many of Lugo's goals. The centerpiece of our assistance is Phase Two of the Millennium Challenge Corporation's Threshold Program, which the Paraguayan Congress approved July 31. The Threshold Program, worth USD 30 million, focuses on anti-corruption. USAID/Paraguay's FY09 budget is USD 17.15 million and focuses on Economic Growth; Health Care; Sustainable Management of Natural Resources and Protected Areas; and Democratic Strengthening. USG support for the Paraguay Military Forces is limited but robust. One highlight is the U.S. Armed Forces' USD 4.1 million donation of Global Peace Operations Initiative (GPOI) funds and technical assistance to Paraguay's United Nations Global Peace Keeping Operations Program (UNPKO).

COMMENT

¶11. (SBU) Your visit offers the United States an opportunity to reaffirm support for Paraguay's democratic institutions, and in particular, its counternarcotics and law enforcement agencies. Lugo has stated that he seeks to strengthen democratic institutions. We hope his administration's first budget (which is being finalized now) will invest additional resources into Paraguay's law enforcement institutions, so Paraguay can continue to build upon U.S. support in these areas. END COMMENT.

Ayalde